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NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

NO SURFACE USE OIL AND GAS LEASE  
(Paid-Up Lease)

This Oil and Gas Lease (this "Lease") is made on (month) May (date) 12<sup>th</sup>, 2008, between **Munkberg Farms, Inc.** as tenant in common, (hereafter called "Lessor," whether one or more), whose address is 3000 325<sup>th</sup> Ave. NE, Cambridge, MN 55008 and **Vargas Energy, Ltd.**, (hereafter called "Lessee"), whose address is 4200 S. Hulen, Suite 614, Fort Worth, Texas, 76109.

1. Grant. In consideration of Ten Dollars and other consideration in hand paid, Lessor grants and leases exclusively unto Lessee the following described land (the "Land") in Tarrant County, Texas, for the sole purpose of exploring, drilling, and producing oil and gas, and other products manufactured from oil and gas produced from the Land:

2.2899 acres of land, more or less, being Lot 1B2, River Hills Phase II Addition, an Addition to the City of Fort Worth, Tarrant County, Texas according to the Corrected Replat thereof recorded in Cabinet A, Slide 5609, Plat Records, Tarrant County, Texas and being more fully described in that Special Warranty Deed dated August 14, 2001 from AEI Fund Management XVII, Inc., a Minnesota corporation, to Munkberg Farms, Inc. as tenant in common, and recorded as D201201129 of the Official Public Records of Tarrant County, Texas.

This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above, whether the same be in said survey or surveys or in adjacent surveys, although not included with the boundaries of the land particularly described above, including the minerals owned by Lessor located in streets, roads, alleys, easements and rights of way adjacent of Lessor's lands described above.

2. Primary Term. This Lease is for a term of three years from this date (called "Primary Term") and as long thereafter as oil or gas is produced in paying quantities from the Land or land pooled therewith or operations are being conducted on the Land or land pooled therewith as provided herein.

3. Minerals Covered. This Lease covers only oil and gas. The term "oil and gas" means oil, gas, and other liquid and gaseous hydrocarbons produced through a well bore.

4. Royalty. (a) As royalties, Lessee agrees:

(1) To deliver free of cost to Lessor at the wells or to the credit of Lessor at the pipeline to which the wells may be connected, 25% (the "Royalty Fraction") of all oil and other liquid hydrocarbons produced and saved from the Land. At Lessor's option, which may be exercised from time to time, Lessee shall pay to Lessor the same part of the market value at the well of oil and other liquid hydrocarbons of like grade and gravity prevailing on the day the oil and other hydrocarbons are run from the Lease in the general area in which the Land is located.

(2) To pay Lessor for gas, including all gases, liquid hydrocarbons and their respective constituent elements, casinghead gas, or other gaseous substance produced from the land and sold at points of sale on or off the premises, the Royalty Fraction of the net proceeds derived from such sale calculated at the well. Lessee shall have free use of all gas produced from the Land for all operations hereunder.

(b) Lessor's royalty shall be free and clear of all costs and expenses whatsoever including expenses of separation, compression, marketing, transportation, treating or manufacturing oil and gas produced hereunder, save and except ad valorem and production taxes. Provided, however, Lessor's royalty shall be subject proportionately to any charges incurred by Lessee for compressing, treating, processing, gathering, transporting and marketing under Lessee's gas purchase contract with a nonaffiliated third party covering the sale of production from the lands included in this lease.

(c) The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee acquiring legal or equitable title to those proceeds, but Lessee will at all time hold the proceeds in trust for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from the Land or pipeline company transporting production from the Land, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid.

5. Operations. (a) If, at the expiration of the Primary Term, oil or gas is not being produced from the Land, but Lessee has commenced operations for the drilling of a well on the Land, or lands pooled therewith, the Lease will not terminate but will remain in effect for so long thereafter as operations are carried out with no cessation of more than 120 consecutive days, and if the operations result in the production of oil or gas, the Lease shall remain in force as otherwise provided

herein. For the purposes of this Lease, the term "operations" means operations for any of the following: preparation for and/or drilling, testing, completing, reworking, fracing, recompleting, deepening, plugging back, or repairing of a well in search of or in the endeavor to obtain, maintain, re-establish or enhance production of oil or gas with no cessation of more than 120 consecutive days.

(b) If after the expiration of the primary term production from any well shall cease for any cause, Lessee shall have 120 days from the cessation of production to commence, and thereafter prosecute drilling or reworking operations in a good faith attempt to restore production from the Land or lands pooled therewith with no cessation of more than 120 consecutive days, and if such operations result in production, this lease shall continue for so long as production in paying quantities continues or the lease is otherwise maintained in force.

(c) As a result of land development in the vicinity of the Land, governmental rules or ordinances regarding well sites, and/or surface restrictions as may be set forth in this Lease and/or other leases in the vicinity, surface locations for well sites in the vicinity may be limited and Lessee may encounter difficulty securing surface location(s) for drilling, reworking or other operations. Therefore, since drilling, reworking or other operations are either restricted or not allowed on the Land or other leases in the vicinity, it is agreed that any such operations conducted at a surface location off of the Land or off of lands with which Land is pooled in accordance with this Lease, provided that such operations are associated with a directional well for the purpose of drilling, reworking, producing or other operations under the Land or lands pooled therewith, shall for purposes of this Lease be deemed operations conducted on the Land. Nothing contained in this paragraph is intended to modify any surface restrictions or pooling provisions or restrictions contained in this Lease, except as expressly stated.

6. Surface Use. Lessee is prohibited from using the surface of the Land for any purpose, but Lessee may engage in directional drilling activities beneath the Land that are conducted on the surface of other land. Any directional drilling must penetrate the Land sufficiently below the surface as to not interfere with the present or future use of the surface of the Land for commercial or residential use, and in no event may the directional drilling penetrate the Land less than 200 feet below the surface. A directional well drilled under this provision shall be considered to be located on the Land.

7. Shut-in Royalty. At any time after the primary term, while there is a gas well on this Lease or on acreage pooled therewith capable of producing gas in paying quantities, but gas is not being sold, and this lease is not otherwise being maintained in full force and effect, Lessee shall pay or tender, as royalty, in advance an annual shut-in royalty of an amount equal to \$10 per acre covered by this Lease. Payment with respect to a well will be due within 180 days after (a) the well is shut-in or (b) the end of the primary term, whichever is the later date. All subsequent Shut-In Royalty payments will be due on or before the anniversary date of the date of the first Shut-In

Royalty payment. While shut-in royalty payments are timely and properly paid, this Lease will be deemed to be held as a producing lease. The obligation of Lessee to pay shut-in royalty is a covenant and not a condition and, if Lessee, for any reason, should fail to make a shut-in royalty payment on or before its due date, Lessor shall notify Lessee in writing of such failure and this Lease shall not terminate as a result of Lessee's failure to make a shut-in royalty payment unless Lessee fails to make such shut-in royalty payment within 60 days from the receipt of written notice from Lessor. The payment or tender of royalty under this paragraph may be made by the check of Lessee mailed or delivered to the parties entitled thereto on or before the due date. *Notwithstanding anything to the contrary contained in this lease, at the option of Lessee, which may be exercised by Lessee giving notice to Lessor, a well which has been drilled and Lessee intends to frac shall be deemed a well capable of producing in paying quantities and the date such well is shut-in shall be when the drilling operations are completed.*

8. Pooling. Lessee shall have the right to pool, as to any one or more formations, the Land with other land or leases in the vicinity thereof, to form pooled units for the production of oil and gas or either of them. Units pooled for oil shall not exceed 40 acres, plus a tolerance of 10%, and units for gas shall not exceed 320 acres, plus a tolerance of 10%, provided that if a governmental authority having jurisdiction prescribes or permits a unit for the drilling or operation of a well to be larger than those specified hereunder, units created thereafter may conform substantially in size to those prescribed or permitted by the governmental authority.

If the well is a Horizontal Well, as defined in the Rules of the Texas Railroad Commission, the unit may contain the additional acreage permitted by Rule 86 of the Texas Railroad Commission. The unit will become effective when Lessee files in the Real Property Records of the county where the Land is located a document describing the pooled acreage and depths for the pooled unit. Lessee will deliver a copy of the document creating the unit to Lessor, upon request. Lessee may at its election exercise its pooling option before or after commencing operations. Operations for drilling on or production of oil or gas from any part of a pooled unit that includes land covered by this Lease shall be considered as operations on or production of oil or gas from the portion of the Land included in the pooled unit. There shall be allocated to the Land included in the unit that prorated portion of the oil and gas, or either of them, gas produced from the pooled unit that the number of surface acres of the Land included in the unit bears to the total number of surface acres included in the unit. Royalties shall be computed on the portion of production allocated to the Land.

9. Force Majeure. Should Lessee be prevented by reason of Force Majeure from complying with any express or implied covenant of this Lease (other than a requirement to pay money), from conducting drilling or reworking operations on the Land, or from producing oil or gas, then while so prevented, that covenant will be suspended; Lessee will not be liable for damages for failure to comply therewith; this Lease will be extended so long as Lessee is prevented from conducting drilling or reworking operations on or from producing oil or gas from the Land; and the time

while Lessee is so prevented will not be counted against Lessee. "Force Majeure" means any Act of God, any federal or state law, scarcity of drilling rigs or other equipment, inability to obtain a drilling permit, any rule or regulation of governmental authority, or other similar cause (other than financial reasons).

10. Warranties. Lessor warrants title to the Land by, through and under Lessor, but not otherwise. If Lessor owns an interest in the Land less than the fee simple estate, then the royalties payable hereunder will be reduced proportionately. All royalty interest covered by this lease, whether or not owned by Lessor, shall be paid out of the royalty herein provided. Lessor's rights and interests hereunder shall be charged with any mortgages, taxes or other liens or interests against the Land, but Lessor agrees that Lessee shall have the right at any time to pay or reduce same for Lessor, either before or after maturity, and Lessee shall be subrogated to the rights of the holder thereof and authorized to deduct all amounts so paid from royalties or other payments which may become payable to Lessor and/or its successors and assigns under this Lease.

11. Notices. All notices will be deemed given and reports will be deemed delivered if sent by certified letter, return receipt requested, properly addressed and deposited in the United States Postal Service, postage prepaid, to Lessor and Lessee at the addresses shown above. Either party may designate a new address by proper notice to the other party.

12. Insurance. At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its operations on the Land, including any work performed on its behalf by contractors, subcontractors, and others, naming Lessor and related individuals and entities designated by Lessor as additional insureds. The policies shall include coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of clean up and surface remediation. The coverage shall be in the minimum amount of \$5,000,000.

13. Indemnity. LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR NUISANCE, FOR INJURY TO OR DEATH OF PERSONS, AND FOR LOSS OR DAMAGE TO PROPERTY, OR ANY OF THEM, INCLUDING, WITHOUT LIMITATION, ATTORNEY FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY OR RESULTING FROM LESSEE'S OPERATIONS OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS

**INDEPENDENT CONTRACTORS. LESSEE'S INDEMNITY OBLIGATIONS  
SURVIVE THE TERMINATION OF THIS LEASE.**

14. Dispute Resolution. In the event of a dispute under this Lease, the parties agree to attempt to resolve the dispute through good faith mediation to be held in Tarrant County, Texas.

15. Miscellaneous Provisions. (a) In the event this Lease expires for any reason as to all or any part of the Land, Lessee shall, within 60 days thereafter, furnish Lessor with a written, recordable release covering all of the Land or that portion of the Land to be released.

(b) Nothing in this Lease negates the usual implied covenants imposed upon Lessee.

(c) Lessee will conduct all operations hereunder in compliance with the rules of the Railroad Commission of Texas and federal and state environmental laws and regulations.

(d) The terms "production" and "producing" mean production and producing in paying quantities. No obligation of Lessee to pay money under this Lease will be excused or delayed by reason of Force Majeure. Lessee's obligations to pay money under this Lease are to be performed in Tarrant County, Texas. Paragraph headings are used in this Lease for convenience only and are not to be considered in the interpretation or construction of this Lease. The execution or ratification by Lessor of any division order, gas contract, or any other document will not alter any provision of this Lease unless the intent to do so is expressly stated in the document.

(e) This Lease is binding upon and for the benefit of Lessor, Lessee, and their respective heirs, personal representatives, successors, and assigns.

Executed on the date first written above.

LESSOR:

Munkberg Farms, Inc. as tenant in common

By: John Munkberg  
[signature]  
John Munkberg Pres.  
[printed name] [title]

LESSEE:

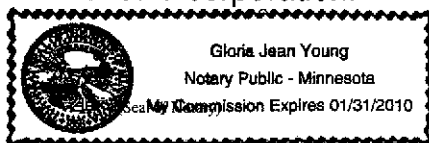
VARGAS ENERGY, LTD.

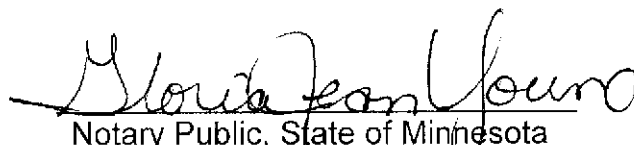
By Plover Production Company, LLC, its sole General Partner

By:   
Crawford Edwards, President

STATE OF MINNESOTA §  
§  
COUNTY OF ISANTI §

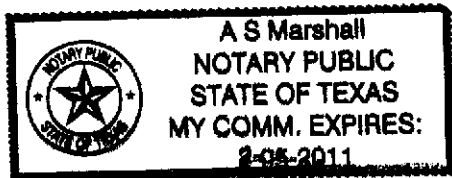
This instrument was acknowledged before me on this 12<sup>th</sup> day of May, 2008, by John Munkberg as Pres. of Munkberg Farms, Inc. as tenant in common, on behalf of said corporation.  
[month] [date] [print name of Munkberg Farms, Inc. representative from page 6] [company title]




  
Notary Public, State of Minnesota

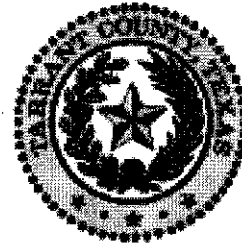
STATE OF TEXAS §  
§  
COUNTY OF TARRANT §

This instrument was acknowledged before me on the 16 day of May, 2008, by Crawford Edwards, President of Plover Production Company, LLC, sole General Partner of Vargas Energy, Ltd., a Texas limited partnership, on behalf of the partnership.



  
Notary Public, State of Texas

After filing, return to:  
VARGAS ENERGY, LTD.  
4200 SOUTH HULEN, SUITE 614  
FORT WORTH, TEXAS 76109



VARGAS ENERGY LTD  
4200 SOUTH HULEN STE 614

FT WORTH TX 76109

Submitter: DANNA G HOBBS

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SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
100 WEST WEATHERFORD  
FORT WORTH, TX 76196-0401

**DO NOT DESTROY**  
**WARNING - THIS IS PART OF THE OFFICIAL RECORD.**

Filed For Registration: 05/22/2008 11:23 AM  
Instrument #: D208192103  
LSE 8 PGS \$40.00

By: \_\_\_\_\_



**D208192103**

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE  
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

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